LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6234
BILL NUMBER: HB 1355

DATE PREPARED: Jan 7, 1999
BILL AMENDED:

SUBJECT: Insurance Coverage for Mental Health Services.

FISCAL ANALYST: Alan Gossard
PHONE NUMBER: 233-3546

FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires that coverage for state employees, the Indiana Comprehensive Health Insurance Association (ICHIA), and individual and group accident and sickness insurance policies and contracts with health maintenance organizations (HMOs) cover treatment for mental illness, including substance abuse and chemical dependency. The bill provides that coverage for treatment for mental illness applies to treatment by a mental health service provider. The bill prohibits financial or treatment limitations greater than those that apply to treatment for a physical health condition. It also requires deductibles or out-of-pocket limits to be comprehensive for treatment for mental illness and physical health conditions. This bill also allows for administration of mental illness benefits by a managed care organization. (The introduced version of this bill was prepared by the Indiana Commission on Mental Health.)

Effective Date: July 1, 1999.

Explanation of State Expenditures: This bill makes several changes to the statute requiring parity in health benefit coverage of mental health (MH) services and substance abuse and chemical dependency (SA) services for state employees, for the ICHIA program, and for insurance policies and HMO contracts in general. Fiscal impacts to the state are summarized in the table below.

Impact on State Employee Health Plans: Provisions affecting the state in its provision of health benefits to state employees include: (1) elimination of the sunset date in current statute of September 29, 2001, for the mental health parity provisions; (2) elimination of the 1% cap on health plan premiums (if the mental health parity provisions in current statute caused health plan premiums to increase by more than 1%, the parity provisions would not have to be implemented); (3) MH and SA coverage is mandated for the state employee health benefit plans; and (4) full parity is required for substance abuse and chemical dependency services.

Current statute requires mental health parity in the health benefit plans for state employees. Mental health parity requires that the health plans may not permit treatment limitations or financial requirements on the coverage of services for mental illness (not including substance abuse or chemical dependency) if similar limitations or requirements are not imposed on coverage of services for other conditions. Financial requirements include both cost sharing (such as copayment or coinsurance amounts) and annual or lifetime spending limits (such as annual or lifetime benefit maximums). Treatment limitations include service limits (such as the number of outpatient visits or inpatient hospital days). Potential fiscal impacts to the state are summarized in the following table.

Current Situation	This Bill's Provisions	Fiscal Impact *
Sunset Date: September 2001 for parity provisions.	**Sunset Date:** Eliminated.	Potential impact. This bill would preclude administrative action after Sept. 2001.
Cap: Parity not required if parity causes premiums to increase by more than 1%.	**Cap:** Eliminates 1% cap.	Potential impact. This bill would preclude administrative action if MH parity provisions in current statute and provisions in this bill had a greater impact on premiums than 1%.
Current Coverage: - MH Services (Already covered) - SA Services (Already covered)	**Coverage required by bill:** - MH (Mandated) - SA (Mandated)	No impact, since MH services and SA services are already covered for state employees.
Parity Provisions: - MH (Financial and Treatment) - SA (None)	**Parity Provisions:** - MH (Financial and Treatment) - SA (Financial and Treatment)	- MH (No Fiscal Impact) - SA (Estimated to be 0.1% of premiums for services provided through point-of-service (POS) plans and 0.3% of premiums for services provided through a PPO. Total estimated cost is about $250,000 per year.)
*** Note: State could respond to anticipated premium increases by (a) increasing employer contributions; (b) increasing employee contributions; (c) reducing health coverage; or (d) reducing or dropping other employee benefits.**		

The estimated increase in health plan premiums of $250,000 is based on HMO contracts totaling $101 million and the claims experiences in the state's self-insured plans of $53.5 million for FY96 (This will be updated when new information becomes available.). However, the state could respond to anticipated premium increases by (a) increasing employer contributions; (b) increasing employee contributions; (c) reducing health coverage; or (d) reducing or dropping other employee benefits. Also, these estimates do not incorporate any potential savings that might exist on employee productivity, absenteeism, or future medical care.

Impact on ICHIA Program: The provisions of this bill also apply to the Indiana Comprehensive Health Insurance Association (ICHIA). ICHIA is currently not required to comply with mental health parity provisions and does not currently provide coverage for substance abuse and chemical dependency, as required by this bill. Consequently, ICHIA estimates additional costs of $9 to $11 per member per month. For the 3,950 policyholders, this implies additional costs to ICHIA of $425,000 to $525,000 per year. (These estimates are consistent with the estimates provided in the 1998 U.S. Department of Health and Human Services report referenced, below.)

Some of this increase can probably be passed on to policyholders in the form of increased premiums. (ICHIA premiums can be no more than 150% of the premium of comparable policies in the open market.) However, the balance of any additional costs, that are not covered by premiums, would be covered by assessments on the insurance companies that sell health insurance in the state of Indiana. ICHIA assessments are able to be claimed by member insurance companies as a credit on premium taxes, gross income taxes, adjusted gross income taxes, supplemental corporate net income taxes, or any combination of these. The aggregate amount of assessments that are claimed as tax credits is not known. However, although not all of the assessments are claimed as a credit, most available credits would be claimed with the amount claimed in any particular year varying according to a company's financial situation.

Explanation of State Revenues: See Explanation of State Expenditures, above, regarding the impact of the bill on ICHIA costs and the consequent impact on revenues from premium taxes, gross income taxes, adjusted gross income taxes, and supplemental corporate net income taxes.

Explanation of Local Expenditures: The potential impact on the costs of local governments and school corporations in providing employee health care benefits is summarized below.

Currently	This Bill's Provisions	Fiscal Impact *
Sunset Date: September 2001 for parity provisions.	**Sunset Date:** Eliminated	Probable impact on those local governments and school corps. who would have chosen to drop or reduce MH/SA coverage after 2001.
Cap: Parity not required to be implemented if parity causes premiums to increase by more than 1%.	**Cap:** Eliminates 1% cap.	Probable impact on those entities with premium increases due to parity provisions that are greater than 1%.
Current Requirements for Coverage: - MH Services (None) - SA Services (None)	**Coverage required by bill:** - MH (Mandated) - SA (Mandated)	Mandated coverage for MH/SA services estimated to cost 3.9% to 4.5% of existing premiums for fee-for-service plans and 4.3% to 5% of premiums for PPO (preferred provider) plans. Cost would be less for services provided through HMOs. These estimates are for those plans not currently offering MH/SA benefits.
Parity Provisions: - MH (Lifetime and Annual dollar limits, only) - SA (None)	**Parity Provisions:** - MH (Financial and Treatment) - SA (Financial and Treatment)	- MH/SA Parity: Depending upon type of health plan, cost of full parity is estimated to range from 0.6% of current premiums for HMOs to 4.9% of current premiums for PPOs. These estimates are for the parity provision, only. For those entities not currently offering MH/SA coverage, these impacts would be in addition to the cost of the MH/SA mandated coverage, described above.
*** Note: Employers could respond to anticipated premium increases by (a) increasing employer contributions; (b) increasing employee contributions; (c) reducing or dropping health coverage; or (d) reducing or dropping other employee benefits.**		

Employers could respond to anticipated premium increases by (a) increasing employer contributions; (b) increasing employee contributions; (c) reducing or dropping health coverage; or (d) reducing or dropping other employee benefits. Also, these estimates do not incorporate any potential savings that might exist on employee productivity, absenteeism, or future medical care.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: Local Governments and School Corporations

Information Sources: The Costs and Effects of Parity for Mental Health and Substance Abuse Benefits, Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services, March 1998 (electronically available at: http://www.mentalhealth.org).

Issues in Mental Health Care Benefits: The Costs of Mental Health Parity, EBRI Issue Brief, Employee Benefit Research Institute, February 1997.

Marjorie Maginn, Anthem, Inc., 488-6351.